

Message Text

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PAGE 01 ROME 01120 221934Z

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C O N F I D E N T I A L ROME 1120

LIMDIS GREENBACK

PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: OSSLA COMMENTS ON ITALIAN EXCHANGE MARKET SITUATION

REF: (A) ROME 0971 (NOTAL); (B) ROME 1065 (NOTAL)

SUMMARY. LIRA/DOLLAR EXCHANGE RATE AT 1630 LOCAL TIME
JANUARY 22 WAS ABOUT 733 LIRE PER DOLLAR, COMPARED TO ABOUT
702 LIRE PER DOLLAR ON PREVIOUS DAY. BANK OF ITALY IS
FAIRLY ENCOURAGED ABOUT ADDITIONAL DRAWING FROM IMF AND
HAS ALREADY MADE \$250 MILLION DRAWING UNDER FED SWAP.
ITALIANS REGRET ADVERSE IMPACT OF LIRA CRISIS ON OTHER
CURRENCIES, E.G. FRENCH FRANC, AND DO NOT
PROPOSE ANY MONETARY OR TRADE MEASURES.
END SUMMARY.

TREASATT SAW BANK OF ITALY DIRECTOR GENERAL OSSOLA
AND HEAD OF FOREIGN EXCHANGE OPERATIONS GERONSI IN
AFTERNOON JANUARY 22. GERONSI INDICATED THAT BANK IS
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PAGE 02 ROME 01120 221934Z

CALCULATING PROXY EXCHANGE RATE IN LIEU OF USUAL DAILY

OFFICIAL FIXING RATE BASED UPON FRANKFURT EXCHANGE MARKET. USING DOLLAR-DEUTSCHEMARK CROSS RATE, DOLLAR-LIRA RATE WAS CALCULATED ON JANUARY 21 AT ABOUT 702 LIRE PER DOLLAR AND AT 733 LIRE PER DOLLAR ON JANUARY 22. BOI WEIGHTED AVERAGE DEVALUATION OF LIRA AGAINST ALL CURRENCIES ON JANUARY 22 WAS SIMILARLY CALCULATED AT 25.73 PERCENT (COMPARED TO RATE IN FEBRUARY 1973 AFTER SECOND DOLLAR DEVALUATION). THIS COMPARES WITH 21.01 PERCENT ON JANUARY 20, I.E., DAY BEFORE BANK OF ITALY WITHDREW FROM EXCHANGE MARKET.

2. OSSOLA SAID THAT BANK OF FRANCE LOST ABOUT \$267 MILLION PLUS 33 MILLION DEUTSCHEMARKS ON JANUARY 21 AND THAT LOSSES ON JANUARY 22 WERE ABOUT \$200 MILLION PLUS 45 MILLION DEUTSCHEMARKS. IN OTHER WORDS, BANK OF FRANCE HAS LOST APPROXIMATELY \$500 MILLION IN TWO DAYS, OR ABOUT SAME AMOUNT AS BANK OF ITALY LOST IN FIRST TWENTY DAYS OF MONTH BEFORE BOI WITHDREW FROM MARKET. APPARENTLY POUND STERLING IS ALSO UNDER ATTACK. OSSOLA SAID THAT ITALIANS REGRETTED DOMINO EFFECT OF SPECULATION AGAINST LIRA. HE SAID THAT BANK'S WITHDRAWAL FROM MARKET QHAD BEEN UNAVOIDABLE. HE REPEATED THAT ITALIANS WERE NOT CONSIDERING INTRODUCTION OF GENERALIZED RESTRICTIVE MEASURES (SEE PARA 4 OF REF A).

3. OSSOLA INDICATED THAT BOI HAD ALREADY RECEIVED \$250 MILLION DIRECTLY UNDER \$3 BILLION SWAP WITH NEW YORK FED. IN RETROSPECT, HE WAS SOMEWHAT CONCERNED ABOUT HOW TO ANSWER QUESTIONS FROM PRESS AND PUBLIC ABOUT SIZE OF SWAP DRAWING. HE WAS AFRAID THAT ITALIAN PRESS WOULD STRESS RELATIVELY SMALL SIZE OF ACTUAL DRAWING COMPARED TO \$3 BILLION OVERALL SWAP LINE AND THAT U.S. WOULD BE CRITICIZED FOR BEING NIGGARDLY. IN FACT, BANK OF ITALY HAD PREVIOUSLY ALLOWED SWAP LINES WITH FRENCH AND SWISS CENTRAL BANKS TO LAPSE BECAUSE THEY HAD INDICATED THAT SWAPS WERE REALLY WINDOWDRESSING ONLY. (EMBASSY WOULD STILL WELCOME STATEMENT REQUESTED IN REF B.)

4. OSSOLA THOUGHT THAT PROSPECTS OF OBTAINING
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PAGE 03 ROME 01120 221934Z

ADDITIONAL DRAWING FROM IMF WERE FAIRLY GOOD. HOWEVER, HE WAS DISAPPOINTED THAT FUND IS ASKING FOR NORMAL STANDBY ARRANGEMENT WITH SPECIFIC CONDITIONS AND RELEASE OF MONEY IN TRanches RATHER THAN ALL AT ONCE.

5. WHEN ASKED WHETHER ITALIANS WERE PREPARING ANY MONETARY OR TRADE MEASURES TO SUPPORT LIRA WHEN BANK

ONCE AGAIN RE-ENTERS MARKET, OSSOLA SAID ONLY THAT
SHORT-TERM INTEREST RATES MIGHT HAVE TO GO UP A LITTLE,
WHILE HE HOPED THAT LONG-TERM RATES COULD BE KEPT AT
PRESENT LEVELS. HE AGAIN CITED ASSURANCES TO OTHER
CENTRAL BANKS THAT ITALIANS WERE NOT CONTEMPLATING
GENERALIZED EXCHANGE CONTROLS OR TRADE RESTRICTIONS,
AS REPORTED PARA 4 REF A. VOLPE

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